

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Metcalfe County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$43,469 from the prior year, resulting in excess fees of \$40,248 as of December 31, 2006. Revenues increased by \$48,338 from the prior year and expenditures increased by \$4,869.

Report Comments:

- 2007-01 The Sheriff Should Properly Report Payroll Wages And Withholdings
- 2007-02 The Sheriff Has Unidentified Receipts Of \$1,178 In The Drug Eradication Account
- 2007-03 The Sheriff Should File A Statement Listing Property Seized To The Proper Authorities
- 2007-04 The Sheriff Should Deposit Funds In Interest-Bearing Accounts
- 2007-05 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2007-06 The Sheriff Should Maintain Accurate Accounting Records
- 2007-07 The Sheriff Did Not Provide Adequate Oversight Of Fuel Credit Card Purchases

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Metcalfe County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 The Sheriff Should Properly Report Payroll Wages And Withholdings
- 2007-02 The Sheriff Has Unidentified Receipts Of \$1,178 In The Drug Eradication Account
- 2007-03 The Sheriff Should File A Statement Listing Property Seized To The Proper Authorities
- 2007-04 The Sheriff Should Deposit Funds In Interest-Bearing Accounts
- 2007-05 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2007-06 The Sheriff Should Maintain Accurate Accounting Records
- 2007-07 The Sheriff Did Not Provide Adequate Oversight Of Fuel Credit Card Purchases

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Metcalfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

April 11, 2008

METCALFE COUNTY
 RONDAL SHIRLEY, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	6,949
State Fees For Services:			
Finance and Administration Cabinet	\$	40,757	
Sheriff Security Service		<u>8,670</u>	49,427
Circuit Court Clerk:			
Fines and Fees Collected			4,610
Fiscal Court			64,977
County Clerk - Delinquent Taxes			588
Commission On Taxes Collected			88,516
Fees Collected For Services:			
Auto Inspections		3,155	
Accident and Police Reports		689	
Serving Papers		8,600	
Carrying Concealed Deadly Weapon Permits		3,990	
House Bill 577		4,040	
Dog Tags		<u>92</u>	20,566
Other:			
Advertising		3,022	
Tax Penalties		13,565	
Miscellaneous		<u>1,379</u>	17,966
Interest Earned			<u>302</u>
Total Revenues			<u>253,901</u>

Expenditures

Operating Expenditures and Capital Outlay:		
Personnel Services-		
Deputies' Salaries		91,401
Employee Benefits-		
Employer's Share Social Security		10,805
Employer's Share Retirement		648

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
 RONDAL SHIRLEY, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-	
Advertising	\$ 1,673
Vehicle Maintenance and Repairs	5,933
Materials and Supplies-	
Office Materials and Supplies	1,525
Uniforms	1,061
Equipment	2,408
Computer Services	240
Auto Expense-	
Gasoline	16,066
Other Charges-	
Conventions and Travel	
Dues	675
Postage	2,802
Training	175
House Bill 577	4,860
Carrying Concealed Deadly Weapon Permits	2,875
Miscellaneous	391
Interest and Penalties	1,754
Capital Outlay-	
Office Equipment	
Vehicles	770
Total Expenditures	146,062
Less: Disallowed Expenditures -	
Interest And Penalties	(1,754)
Total Allowable Expenditures	144,308
Net Revenues	109,593
Less: Statutory Maximum	69,345
Excess Fees Due County for 2006	40,248
Payment to Fiscal Court - January 9, 2007	40,248
Balance Due Fiscal Court at Completion of Audit	\$ 0

The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Drug Eradication Account

The Metcalfe County Sheriff maintains a Drug Eradication Account. This account is funded by proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. As of January 1, 2006, this account had a balance of \$405. During 2006, \$13,775 was received and \$6,923 was expended, leaving a balance of \$7,257.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Rondal Shirley, Metcalfe County Sheriff
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Metcalfe County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated April 11, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metcalfe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Metcalfe County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metcalfe County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies 2007-05, 2007-06, and 2007-07, described in the accompanying comments and recommendations, to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are included in the accompanying comments and recommendations as the following: 2007-01, 2007-02, 2007-03 and 2007-04.

This report is intended solely for the information and use of management, the Metcalfe County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

April 11, 2008

COMMENTS AND RECOMMENDATIONS

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

2007-01 The Sheriff Should Properly Report Payroll Wages And Withholdings

26 USCA § 3402 states that “every employer making payment of wages shall deduct and withhold upon such wages ... federal income taxes.” In addition, 26 USCA § 3102 requires every employer to withhold FICA from wages. Every employer is required by federal law to file each quarter an Employer’s Quarterly Federal Tax Return with the Internal Revenue Service (IRS). This return should include total wages for all employees, income tax and FICA withheld from all wages and the employer’s share of FICA. During 2006, the Sheriff did not file returns in a timely manner and did not make federal deposits in a timely manner, resulting in penalties and interest of \$426. Additionally, there were two tax levies in the amount of \$213 and \$1,328 from the drug and fee accounts, respectively. These tax levies were the result of filing late returns for calendar year 2005. The Sheriff should properly report all wages and withholdings to the IRS on the Employer’s Quarterly Federal Tax Returns on a timely basis. The Sheriff should also make federal deposits on a timely basis. We recommend the Sheriff reimburse the 2006 Fee Account \$1,754 (\$426 plus \$1,328) and the Drug Eradication Account \$213 from personal funds.

Sheriff’s Response: No response

2007-02 The Sheriff Has Unidentified Receipts Of \$1,178 In The Drug Eradication Account

The Metcalfe County Sheriff maintains a Drug Eradication Account. This account is funded by proceeds emanating from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. According to the prior year audit, \$6,725 confiscated as evidence was deposited into the official bank account before the cases were resolved. During 2005 and 2006, court awarded funds of \$130 and \$5,417 (total - \$5,547), respectively, were not deposited into the account upon court order. The difference between the evidence money deposited and the amount awarded by the court in these cases results in an unknown variance of \$1,178 (\$6,725 less \$5,547). We recommend the Sheriff account for these funds separately until all evidence confiscated prior to December 31, 2006 is disposed of by court order.

Sheriff’s Response: No response

2007-03 The Sheriff Should File A Statement Listing Property Seized To The Proper Authorities

The Sheriff did not maintain accurate records or a complete listing of all money and property seized during arrests. According to KRS 218A.440(1)(2), the Sheriff “at the close of each fiscal year, file a statement with the Auditor of Public Accounts, and with the secretary of justice containing, a detailed listing of all money and property seized in that fiscal year and the disposition thereof. The listing shall identify all property seized.” Any law enforcement agency failing to report this listing as required could be liable to the state for the full value of all property and money seized. We recommend the Sheriff comply with this statute.

Sheriff’s Response: No response

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2007-04 The Sheriff Should Deposit Funds In Interest-Bearing Accounts

The Sheriff deposited funds into a noninterest-bearing account. According to KRS 66.480, the county officials at the direction of the fiscal court shall invest and reinvest money subject to their control and jurisdiction. We recommend the Sheriff deposit public funds into an interest bearing account.

Sheriff's Response: No response

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2007-05 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties over receipts and disbursements. The bookkeeper posts all items to the receipts and disbursements ledgers, prepares and signs all checks, performs monthly bank reconciliations, and prepares the financial statements. Adequate segregation of duties would prevent the same person from having a significant role in receiving processing, recording, and reporting receipts and disbursements. The Sheriff should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. Examples of compensating controls include, but are not limited to, routinely reviewing daily checkout procedures for accuracy, performing bank reconciliations and ensuring that financial statements are accurate. The Sheriff could document his review by initialing reports and supporting documentation.

Sheriff's Response: No response

2007-06 The Sheriff Should Maintain Accurate Accounting Records

During the audit of the Sheriff's financial statement for 2006, we noted errors in the Sheriff's accounting records. These included the following:

- Receipts and disbursements ledgers were not posted accurately. The Uniform System of Accounts, as established under KRS 68.210, requires the Sheriff to accurately keep and maintain daily ledgers. There were unrecorded and incorrectly classified receipts and disbursements. There were also numerous instances where the ledgers did not foot or cross foot.
- Quarterly financial reports did not reconcile to bank account activity.
- Individual earning records did not foot or cross foot.

We recommend the Sheriff initiate procedures to ensure that all accounting records are accurately maintained.

Sheriff's Response: No response

METCALFE COUNTY
RONDAL SHIRLEY, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES:
(Continued)

2007-07 The Sheriff Did Not Provide Adequate Oversight Of Fuel Credit Card Purchases

The Sheriff did not provide adequate oversight over fuel credit card purchases and we could not determine if all of the fuel purchased was appropriately used. The Sheriff's office has three fuel credit cards. A personal identification number (PIN) and odometer reading are required each time the card is used. When the monthly credit card statement is received, there is a breakdown by PIN number to show the date of purchase, gallons of fuel purchased and odometer reading at the time of purchase.

Prior to payment, the Sheriff did not review the credit card statements nor were vendor receipts maintained and reconciled to amounts on the monthly billing statement. In addition, there were instances when the same odometer reading such as "123456" was used each time fuel was purchased. By not reviewing and maintaining proper oversight of these credit cards, the Sheriff did not ensure the accuracy of what was billed and the reasonableness of what was charged by each deputy.

Each deputy should be held accountable to maintain the original vendors receipt and should ensure actual odometer readings are used at the time of purchase. In addition, each vendor receipt should be maintained and reconciled to the monthly billing statement prior to payment. Lastly, the Sheriff should ensure the fuel credit cards are used to purchase fuel for official vehicles only and anytime official travel is done in a personal vehicle, a request for mileage reimbursement should be completed naming the specific date, time and purpose of the travel.

Sheriff's Response: No response

